

Tax Benefits for Capital Equipment

Section 179 Expense Deduction Decreasing for 2010:

For small- business owners, the clock is ticking on some favorable tax incentives. If your business is healthy enough to buy equipment or software, the federal income tax perks for doing so are better than ever. Below are some things to consider before the year is over.

Section 179 depreciation deduction

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Section 179 of the [United States Internal Revenue Code](#) ([26 U.S.C. § 179](#)), allows a taxpayer to elect to deduct the cost of certain types of property on their income taxes, as an expense (rather than requiring the property to be capitalized and depreciated). This property is generally limited to tangible, depreciable, personal property which is acquired for use in the active conduct of a trade or business.^[1] Buildings are not eligible for section 179 deductions.^[2] Depreciable property that is not eligible for a section 179 deduction is still deductible over a number of years through [MACRS](#) depreciation according to sections 167 and 168. The 179 election is NOT mandatory, and the equipment may be depreciated according to sections 167 and 168 if preferable for tax reasons.^[3] Further, the 179 election may only be taken for the year the equipment is placed in use and is waived if not taken for that year.^[4] However, if the election is taken, it is irrevocable unless special permission is given.^[5]



Section 179 Deduction *(Updated for 2010 COLA)*

Most new business equipment can be either depreciated over its useful life or expensed immediately under Internal Revenue Code Section 179. The maximum deduction is based on the following schedule for the date in which the tax year begins. Each 1040, whether Single or Joint, is limited to one maximum. 179 expenses passed through via K-1s from partnerships (1065), S-corps (1120S), or trusts (1041) are limited at the 1040 level to the one maximum amount. A C Corp is able to deduct its own 179 expenses in addition to what is claimed on the 1040s of the owners. This is one of the many ways in which C corps can save thousands of dollars in taxes over S corps.

The following table is of the Federal maximums. Many states have not matched these amounts and have much smaller allowable deductions. In those cases, it is critical to maintain two sets of depreciation schedules; one for IRS and another for the State. Since the basis of an asset may be different for each tax agency, the gain or loss on its disposal will similarly be different.

2002	\$24,000
2003	\$100,000
2004	\$102,000
2005	\$105,000
2006	\$108,000
2007	\$125,000
2008	\$250,000
2009	\$250,000
2010	\$134,000
2011	\$25,000

For 2004 through 2010, the annual amounts are to be adjusted for inflation. Up until recently, the Section 179 election was only allowed on originally filed tax returns. People who overlooked it were not allowed to claim it on amended returns. This new law allows the Section 179 expensing election to be claimed or revoked on amended returns for 2003 through 2010.

Disaster Assistance Property

For 2008 the maximum Section 179 deduction for qualified disaster assistance property is a total of \$350,000.

The investment limit for Section 179 qualified disaster assistance property is \$1,400,000 for 2008.

Qualifying Property

Generally, the types of business equipment that qualify for this expensing election are the same kind that qualified for the now-defunct Investment Tax Credit. Most movable assets qualify. Permanent structures do not qualify. Business vehicles with a gross vehicle weight over 6,000 pounds qualify for the full Sec. 179, while lighter vehicles have a much lower dollar limit.

One of the most common questions I am still receiving is whether the Section 179 expensing election is only available for the purchase of brand new assets or whether things such as used vehicles qualify. The answer is still the same. The asset just has to be **new to you**. You can claim the deduction for items purchased from anyone other than yourself or an entity controlled by you, such as a closely held corporation.

As of October 22, 2004, the maximum amount that can be claimed for SUVs weighing between 6,000 and 14,000 pounds is \$25,000. The remaining \$77,000 can be used for other kinds of business equipment, including vehicles weighing more than 14,000 pounds.

To be eligible for the Section 179 deduction, the asset must be used at least 50% for business in the first year it is placed in service. The cost eligible for the deduction is the business usage percentage.

Here are more details on qualifying and non-qualifying property, courtesy of the [Quick Finder](#) reference book.

Qualifying Property:

- Tangible personal property (such as machines, equipment, furniture).
- Certain other tangible property used for specified purposes.
- Single-purpose agricultural or horticultural structures.
- Certain storage facilities.
- Railroad gradings or tunnel bores.

Some examples of qualifying property from the [Depreciation QuickFinder Handbook](#):

- Airplanes.
- Automobiles.
- Billboards (if movable).
- Cattle—dairy or breeding.
- Citrus trees.
- Computers.
- Emus.
- Fruit trees.
- Gas storage tanks.
- Goats—breeding or milking.
- Greenhouses.
- Helicopters.
- Horses.
- Off-the-shelf computer software.
- Oil and gas well and drilling equipment.
- Orchards.
- Ostriches.
- Printing presses.
- Refrigerators.
- Sheep—breeding.
- Signs.
- Sport Utility Vehicles (SUVs).
- Storage facility (e.g., peanut, hay, potato or tobacco).
- Store counters.
- Testing equipment.

- Macadamia trees.
- Machinery and equipment.
- Mink and other fur-bearing animals.
- Office equipment—copiers, typewriters, fax machines, etc.
- Office furniture—desks, chairs, file cabinets, book shelves, etc.
- Tractors.
- Trailers (movable).
- Trucks.
- Vineyards.
- Water wells.

Non-qualifying Property:

- Property held for the production of income (investment property, most rentals).
- Real property, including buildings and their structural components, air conditioning and heating units.
- Property acquired by gift, inheritance or trade.
- Property purchased from certain related parties.
- Controlled group to controlled group transactions.
- Property used outside the United States.
- Property used in connection with furnishing lodging.
- Property used by tax-exempt organizations and governmental units.
- Property used by foreign persons or entities.
- Property held by an estate or trust.
- Property used by a passive activity.
- Intangible property (including computer software).

Some examples of non-qualifying property from the Depreciation QuickFinder Handbook:

- Air conditioning units.
- Barns.
- Billboards (if not movable).
- Bridges.
- Buildings.
- Docks.
- Elevators.
- Escalators.
- Fences.
- Foreign used property.
- Heating units.
- Investment property.
- Land.
- Landscaping.
- Leased property.
- Rental property.
- Roads.
- Shrubby.
- Sidewalks.
- Stables.
- Swimming pools.
- Trailers (nonmobile with wheels detached and permanent utilities).
- Warehouses.
- Wharves.

IRS Publication 946: How To Depreciate Property

- [Financing of asset has no effect on Section 179 deduction Section 179 & Leases](#)
- [Employees Can Claim Section 179 Deductions](#)
- [Section 179 On Converted Assets](#)
- [Income Limits Using Sec. 179](#)

Phase-Out of Sec. 179

To prevent the evil rich, who buy a lot more new things than "normal" people, from receiving this tax benefit, there is a phase out of the allowable Section 179 deduction if too much new §179 qualifying property is purchased during the tax year. For each dollar of newly acquired qualifying property purchased during the tax year that exceeds the amounts established by our rulers in DC, the Section 179 deduction is reduced by a dollar; but not below zero.

- For 2003, that phase-out begins at \$400,000
 - For 2004, that phase-out begins at \$410,000
 - For 2005, that phase-out begins at \$420,000
 - For 2006, that phase-out begins at \$430,000
 - For 2007, that phase-out begins at \$500,000
 - For 2008 + 2009, that phase-out begins at \$800,000
 - For 2010, that phase-out begins at \$530,000
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When Can Section 179 Be Used?

Section 179 deductions can be elected in the same year that the equipment is purchased. Even though the deductions have been available for several years, the American Recovery and Reinvestment Act extended the increased deductions available in Section 179 through 2010. The maximum deduction is expected to revert back to \$125,000 after 2010.

One of the best features of this deduction is that you do not have to make the full payment before December 31st 2009, so you can opt for an [equipment lease](#) or [business loan](#). Also, the amount of this deduction is not based on the number of days this equipment has been in service. So it's never too late! You are entitled to the \$250,000 deduction as long as you buy the equipment by December 31st.

When Must You Recapture the Deduction?

You may have to recapture the section 179 deduction if, in any year during the property's recovery period, the percentage of business use drops to 50% or less. You also increase the basis of the property by the recapture amount. If you sell, exchange or dispose of the property, the IRS requires that the rules for recapturing depreciation are applied, which can be found [here](#).

Revoking an election

An election (or any specification made in the election) to take a section 179 deduction for 2008 can be revoked without IRS approval by filing an amended return. The amended return must be filed within the time prescribed by law. The amended return must also include any resulting adjustments to taxable income. Once made, the revocation is irrevocable.

For more information go to <http://www.section179.org/>